Developing Pricing Strategies and Programs

Chapter Questions

- How do consumers process and evaluate prices?
- How should a company set prices initially for products or services?
- How should a company adapt prices to meet varying circumstances and opportunities?
- When should a company initiate a price change?
- How should a company respond to a competitor's price challenge?

Consumer Psychology and Pricing

- Reference Prices
- Price-quality inferences
- Price endings
- Price cues

Steps in Setting Price

1. Select the price objective
2. Determine demand
3. Estimate costs
4. Analyze competitor price mix
5. Select pricing method
6. Select final price

Step 1: Selecting the Pricing Objective

- Survival
- Maximum current profit
- Maximum market share
- Maximum market skimming
- Product-quality leadership

Step 2: Determining Demand

Price Sensitivity

Estimating Demand Curves

Price Elasticity of Demand

Figure 14.2 Inelastic and Elastic Demand

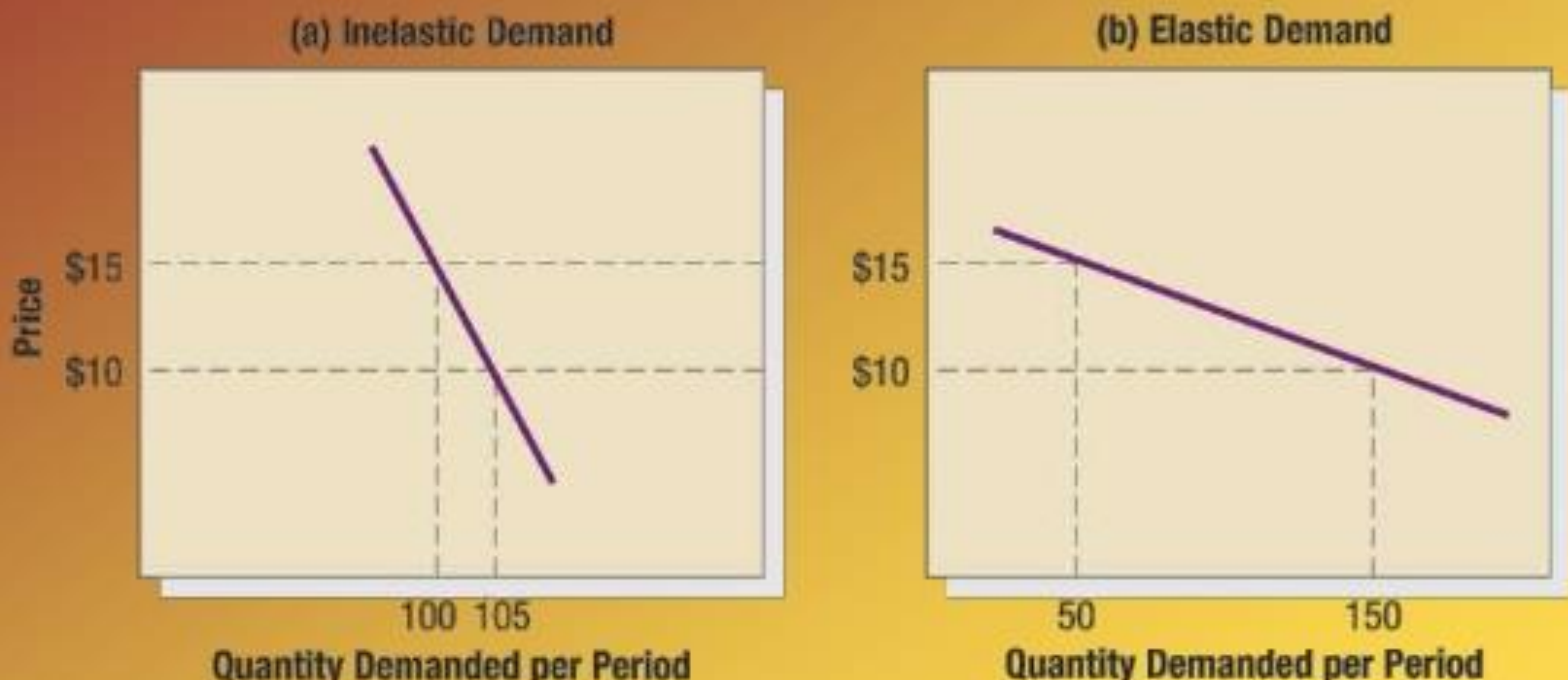

Table 14.3 Factors Leading to Less Price Sensitivity

- The product is more distinctive
- Buyers are less aware of substitutes
- Buyers cannot easily compare the quality of substitutes
- The expenditure is a smaller part of buyer's total income
- The expenditure is small compared to the total cost of the end product
- Part of the cost is paid by another party
- The product is used with previously purchased assets
- The product is assumed to have high quality and prestige
- Buyers cannot store the product

Step 3: Estimating Costs

- Types of Costs
- Accumulated Production
- Activity-Based Cost Accounting
- Target Costing

Auction-Type Pricing

- English auctions
- Dutch auctions
- Sealed-bid auctions

Price-Adaptation Strategies

Geographical Pricing

Discounts/Allowances

Promotional Pricing

Differentiated Pricing

Differentiated Pricing

- Customer-segment pricing
- Product-form pricing
- Image pricing
- Channel pricing
- Location pricing
- Time pricing
- Yield pricing